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SIPDIS

DEPT FOR EUR DAS KENNEDY

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TAGS: [PREL](#) [ZS](#) [CY](#) [EUN](#) [USEU](#) [BRUSSELS](#)

SUBJECT: EU NORTH CYPRUS TRADE/AID: UPDATE

REF: USEU BRUSSELS 3821

Classified By: USEU POL Harry O'Hara, reasons 1.4 b and d.

[11.](#) (C) Summary: The EU has separated its trade and financial package for North Cyprus in order to get the aid package approved on November 22. One Council source told us that this is a "split in timing -- not in substance" because member states have informally committed themselves to get a trade package together for North Cyprus sometime in 2005. The procedural torpor is a result of Cyprus's hard line and EU unwillingness to isolate or punish a member state. End Summary

Financial Package: The Way Ahead

[12.](#) (C) Council Secretariat and Commission officials tell us that once the Foreign Affairs Committee of the European Parliament approves the Commission proposal of 259 million Euros of financial assistance for North Cyprus (positive vote expected late October 26), it will be submitted to the next Plenary Session of the European Parliament (o/a November 18), where approval is expected. From there, the Commission financial package will be submitted to the November 22 EU General Affairs and External Relations Council (GAERC) for final approval.

Trade Package: A Commitment to Act in Good Faith

[13.](#) (C) A Council official involved in navigating the assistance package to the GAERC told us that the financial package is pre-cooked and that the Cypriots and the Greeks are comfortable with it. However, to free up the financial package, EU member states, under the Dutch Presidency, had to agree to split the assistance package from the trade package. The UK was unhappy with this split but accepted a "gentlemen's agreement" that a final EU trade package would not be forgotten or diluted and that member states would commit themselves to getting an agreement within a fixed time frame (notionally some time in early 2005).

Consensus vice QMV

[14.](#) (C) Previously we reported on a split between the legal services of the Council and Commission over whether qualified majority voting (QMV) or consensus would be needed for a decision on the trade package. Typically, trade matters with third parties are decided by QMV. The Commission argued that this was no exception. Others in Council and the Dutch Presidency argued that, politically, it was not acceptable for the EU to approve a trade measure to North Cyprus against the wishes of Cyprus. A Council source told us that there remains considerable concern among member states over the perception of forcing something on Cyprus, a small and new EU member, without its approval. Our Commission interlocutors were not happy with this outcome, and worry about how little the EU has been able to do in North Cyprus.

Comment

[15.](#) (C) Even through Cyprus has played this very tough, many EU member states do not want to be seen as punishing or "bullying" a member state. The Dutch Presidency, in particular, has demonstrated flexibility and patience with Cyprus by first getting them to let the assistance package get out of COREPER and on its way to the GAERC, and then ruling against the Commission on the trade package. Unfortunately, this cautious approach has slowed down movement on both aid and trade for North Cyprus. As a result, six months after the referendum, North Cyprus has nothing to show from the EU for its support for the UN reunification plan.

McKinley